

## Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 H-02 TRSE-00 AID-05 L-03

/031 W

-----211342Z 023656 /44

R 211235Z MAR 77

FM AMEMBASSY ANKARA

TO SECSTATE WASHDC 6841

UNCLAS ANKARA 2062

FOR EB/IFD/ODF: JOHN BLANEY

E.O. 11652: N/A

TAGS: EFIN, EAID OREP

SUBJ: SENATOR GRAVEL'S PAPER ON TAXATION FOR DEVELOPMENT ASSISTANCE

REF: A) STATE 9837 B) ANKARA 1883

1. WORKING GROUP IN OUR ECONOMIC SECTION, INCLUDING OUR SINGLE REMAINING AID AFFAIRS OFFICER, HAS MET FROM TIME TO TIME TO DISCUSS SENATOR GRAVEL'S PAPER AND REPORTS AS FOLLOWS:

2. WE CONSIDER THE CONCEPT TO BE AN INGENIOUS ONE, WELL ARTICULATED AND WELL PRESENTED. DESPITE SENATOR'S EXPRESSED OPINION THAT PROPOSAL STILL NEEDS WORK AND IMPROVEMENT, WE FEEL THAT THE DISCUSSION IS COMPREHENSIVE, COVERING ALL ESSENTIALS. CONSEQUENTLY, WE HAVE NO CRITIQUE TO OFFER ON DETAILED PRESENTATIONS.

3. MAJOR PROBLEM AS WE SEE IT IS THE ACCEPTABILITY OF THE CONCEPT BY THE EVENTUAL RECIPIENTS OF THE AID SO FUNDED, BY THE NATIONS IN WHICH PROFIT PRODUCING MULTINATIONAL CORPORATIONS ARE LOCATED, AND BY THE U.S. TAXPAYER WHO ULTIMATELY BEARS THE BURDEN. RIGHTLY UNCLASSIFIED

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OR WORNGLY, MULTINATIONAL CORPORATIONS COLLECTIVELY ARE VIEWED WITH FEAR AND SUSPICION IN MANY DEVELOPED NATIONS AS WELL AS AMONG THE LDCS AND LLDCS. THIS HAS RESULTED IN MUCH DENEGRATION, FREQUENTLY UNWARRANTED. THIS FEAR WE BELIEVE IS BASED ON THE CONCERN THAT THE MULTI-NATIONAL CORPORATIONS CAN BECOME A LAW UNTO THEMSELVES AND HAVE THE POTENTIAL OF INFRINGING

NATIONAL SOVEREIGNTY AND/OR UNDULY INFLUENCING OR CONTROLLING THE INTERNAL ECONOMY OF HOST NATIONS. THAT THEIR PROFITS SHOULD BECOME THE SOURCE OF ASSISTANCE FUNDING WOULD BE LOOKED UPON AS GIVING THEM A KEY ROLE AND HENCE ENHANCING THEIR PRTELIAL POWER TO INTERFERE IN AID RECIPIENT NATIONS.

4. FURTHER, IT MUST BE NOTED THAT MULTINATIONAL CORPORATIONS HAVE MOST OF THEIR INVESTMENT IN DEVELOPED NATIONS, MOST IF NOT ALL OF WHICH HAVE THEIR OWN FOREIGN ASSISTANCE PROGRAMS. THESE NATIONS MAY FEEL THAT, SINCE THE PROFITS WERE EARNED WITHIN THE BORDERS, THE DIVERSION OF SUCH FUNDS TO ASSISTANCE SHOULD PROBABLY BE DONE ON THEIR OWN ACCOUNT OR AT LEAST THE EXPENDITURE FROM THESE FUNDS FOR HUMAN RESOURCES AND MATERIAL SHOULD BE ACCOMPLISHED WITHIN THEIR ECONOMIES. PRESSURES WOULD INEVITABLY GROW, IT SEEMS TO US, TO TAX THE CORPORATIONS AT THEIR HOME BASE ON TOTAL EARNINGS, RATHER THAN ON REMITTANCES OF TAXABLE INCOME FROM IDENTIFIABLE FOREIGN SOURCES.

5. FINALLY, THE CONCEPT INVOLVING AS IT DOES " DOLLAR FOR DOLLAR TAX CREDITS" AND " AUTOMATIC FUNDING" MAY BE VULNERABLE TO COMPLAINTS OF "HIDDEN TAXATION". SUCH TAX CREDITS WOULD ULTIMATELY SHIFT THE FINANCE BURDEN BACK ONTO THE TAXPAYER, WHILE THE AUTOMATIC NATURE OF THE ASSISTANCE FUNDING WOULD DENY OR AT LEAST LESSEN THE DEGREE OF PROTECTION PROVIDED BY ANNUAL CONGRESSIONAL REVIEWS, HEARINGS UNCLASSIFIED

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AND CONTROL OF APPROPRIATIONS.  
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## Message Attributes

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**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009